

Message Text

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PAGE 01 JIDDA 01788 080642Z

ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 L-03 H-01 NSC-05

SS-15 STR-07 CEA-01 PA-01 DOE-11 SOE-02 SSM-03

/105 W

-----013140 081130Z /17

R 080550Z MAR 78

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 1317

INFO AMCONSUL DHAHRAN

USLO RIYADH

C O N F I D E N T I A L JIDDA 1788

E.O. 11652: GDS

TAGS: EFIN, SA

SUBJECT: SAUDIZATION OF FOREIGN BANKS

REF: 77 JIDDA 4047

1. SAUDI DEADLINE OF MAY 29, 1978, FOR FOREIGN MANKS OPERATING IN SAUDI ARABIA TO CONVERT TO SAUDI JOINT VENTURE COMPANIES IS APPROACHING WITH LITTLE ON SURFACE TO INDICATE THAT REMAINING HOLDOUT BANKS (MOST IMPORTANT OF WHICH ARE CITIBANK AND ARAB BANK) WILL MEET DEADLINE.

2. LOCAL CITIBANK EMPLOYEES HAVE, HOWEVER, INDICATED THAT NEGOTIATION IS UNDERWAY WITH SAUDI MONETARY AGENCY (SAMA), AND THAT DIFFERENCES ARE NARROWING. CITIBANK BOARD AGREED LATE LAST YEAR TO ACCEPT MINORITY POSITION IF SUITABLE COMPENSATION AND MANAGEMENT ARRANGEMENTS COULD BE NEGOTIATED. THOUGH WE HAVE HEARD NOTHING TO INDICATE THAT SAUDIS HAVE REDUCED THEIR REQUIREMENT FOR 60 PERCENT OWNERSHIP AND EQUIVALENT REPRESENTATION ON THE BOARD OF DIRECTORS, CITIBANK MAY BE NEGOTIATING
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PAGE 02 JIDDA 01788 080642Z

TO OBTAIN SUITABLE ADDITIONAL COMPENSATION THROUGH GUARANTEED BUSINESS VOLUMES, CTC. OUR OWN BET IS THAT CITIBANK WILL AGREE TO SAUDIZATION BY DEADLINE, RAHTER THAN LOSE FOOTHOLD IN THIS VERY PROFITABLE MARKET.

3. SAUDIZATION OF OTHER BANKS IS PROGRESSING

SATISFACTORILY. BANKS WHICH HAVE BEEN SAUDIZED HAVE BEEN ALLOWED TO OPEN NEW OFFICES, AND ONE (THE SAUDI-DUTCH BANK, EX-ALGEMENE BANK NEDERLAND) HAS BEEN AUTHORIZED TO INCREASE ITS CAPITAL FROM SR 35 TO 100 MILLION. AL JAZEERA BANK (EX-BANK OF PAKISTAN) HAS, HOWEVER, HAD ITS REQUEST FOR CAPITAL INCREASE HELD UP BY SAMA, FOR REASONS WHICH ARE UNCLEAR BUT SEEM TO INCLUDE DESIRE TO HAVE MORE SAUDIS IN BANK MANAGEMENT. BANK DE L'INDOCHINE WAS ALLOWED TO RAISE ITS CAPITAL TO SR 100 MILLION AT TIME OF ITS RECHARTERING AS SAUDI VENTURE LAST SUMMER.

3. MOST RECENT BANK TO SAUDIZE, BRITISH BANK OF MIDDLE EAST (BBME). HAS JUST OPENED OFFER FOR PUBLIC SALE OF 43 PERCENT OF SR 100 MILLION CAPITALIZATION AS NEW SAUDI-BRITISH BANK. BBME WILL HOLD 40 PERCENT OF SHARES AND SAUDI FOUNDING MEMBERS REMAINING 17 PERCENT, WITH BBME HAVING EIGHT-YEAR MANAGEMENT CONTRACT. THIS IS GENERAL PATTERN WHICH HAS BEEN SET BY SAUDIZATIONS OF PAST YEAR, AND WHICH CITIBANK MUST NOW FACE AS PRECEDENT FOR ITS NEGOTIATIONS.

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